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India | Midcaps | Flash Update

Piramal Glass | PIRA IN

Price: ₹108

JM FINANCIAL

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Updated FY13 guidance implies strong EPS ramp

- **EBITDA margins take another step up in 3Q:** Piramal Glass' 3QFY11 results showed continued progress in executing the mix shift strategy articulated by the company over the past year. EBITDA margins rose to 24.6% (based on our calculation) from 22.2% in 2QFY11 and 21.8% in 3QFY10. Growing contribution of the high-margin premium segment of the cosmetics and perfumery (C&P) business, which is the company's principal focus area, continued to drive margins. Premium C&P revenues at c.₹800mn accounted for c.24% of company revenues vs 20% in 2QFY11 and 19% in 3QFY10.

- **Internal accruals seen sufficient to fund capex, debt paydown:** Management expects demand from all parts of the world to remain robust in the foreseeable future. To meet demand, the company plans to expand capacity at existing furnaces by c.100 TPD (current capacity 1,120 TPD) with an investment of ₹1.6bn, and additionally set up new greenfield capacity of c.160 TPD with an investment of ₹1.0bn at Jambusar by the end of FY12. Management expects to be able to finance the total capex requirement of ₹2.6bn over the next two years through internal accruals. It also expects to pay down substantial debt through internal accruals and take the debt-equity ratio down from 2.7x currently to 1.5x by the end of FY13.

- **Newly unveiled FY13 guidance implies strong earnings ramp:** Management expects revenues to witness 15-17% CAGR during FY11-13E, with premium C&P revenues witnessing 26% CAGR. The company maintains that EBITDA margins should move up towards 28% as more production is shifted from the US to India. Management said that by the end of FY11E, the number of production lines in the US will shrink from 6 to 4, and will be replaced by 2 production lines in India. The remaining 4 lines in the US will be dedicated to the manufacture of specialty food and beverage glass containers. If the company can deliver on its FY13E guidance, EPS will likely exceed ₹20 in FY13E, we estimate. Even if EBITDA margins flatten out at current levels near 25% and debt levels remain unchanged, EPS could be in the high-teens in FY13E. On the conference call, management expressed confidence in their growth outlook and stated that they see little risk to the company's revenue growth assumptions. Management believes that even an economic recession in the Western world would be positive for Piramal Glass as it would accelerate the shift in container glass manufacturing away from high-cost geographies towards lower-cost regions like India.

- **Current valuations do not seem to discount the targeted earnings ramp:** Given the turnaround phase the business is in, historical earnings do not correctly reflect future earnings power. The shares trade at less than 10x the annualised 3QFY11 EPS of ₹2.88, slightly below peers, which generally trade at a one-year forward P/E of 11-12x. If the company delivers on FY13E guidance, there could be substantial upside in the share price from current levels. The company's execution track record over the past year and the high entry barriers enjoyed by the premium C&P business lend credibility to management guidance.

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